**Economics 203/Test 4 (Put your name on your scantron)**

1. Commercial Paper is the term given for loans and associated interest rates

a. issued by large non-financial corporations like GE

b. issued between banks

c. issued by the Federal Reserve System

d. none of the above

2. The entity with the power to create “base money” by printing currency or creating electronic balances a. is the Federal Reserve System

b. is the U.S. Department of Treasury

c. is the Federal Monetary Authority

d. none of the above

3. In order to change the amount of money in circulation, the primary means used by the federal entity in charge of money

a. changes the interest rate on 3-month Treasury bills

b. buys or sells Treasury bills, notes, and bonds

c. changes the ratio of bank accounts to money held at home

d. none of the above

4. During what time period did interest rates reach historically high levels in the U.S. in response to excessive money creation and high inflation?

a. the late 1970s and early 1980s b. the late 1980s and early 1990s

c. the late 1990s and early 2000s d. none of the above

5. A widely followed interest rate paid/received by U.S. banks borrowing/lending using funds they have on deposit in the Federal Reserve System

a. the 3-month Treasury Bill rate b. The Fed Funds rate

c. Prime rate d. none of the above

6. The U.S. banking system where banks hold only part of deposited money and lend most is known as

a. The Federal Reserve System b. The U.S. Treasury System

c. The Fractional Reserve System d. none of the above

7. The CEE reading on interest rates emphasized that the level of a specific rate is driven by

a. the overall economy’s strength and saving activity

b. the rate of inflation

c. riskiness of the borrower

d. all of the above

8. In September of 2008, the difference in interest rates between interbank interest rates and Treasury Bill rates as well as the inability of some large money market mutual funds to redeem deposits on a $1 for $1 basis, indicated that

a. the “wholesale” money market was breaking down

b. most depositors were demanding their money back from banks

c. that the crisis was and would be limited to “Wall Street” and not impact “Main Street”

d. all of the above

9. The U.S. Department of Treasury

a. oversees the Federal Reserve System

b. manages the amount of money in the economy by altering “base money”

c. makes/receives payments for the U.S. and borrows money for the U.S.

d. all of the above

10. Which of the following contributed to cheap credit and increasing debt to income ratio in the U.S.?

a. growth of commercial lending to finance projects such as Las Vegas City Center

b. initiatives by government sponsored entities intended to spur home ownership

c. inflows of saving (capital) from foreign countries into the U.S.

d. all of the above

11. Which of the following is an accurate statement:

a. stable money must be backed by (convertible into) into a precious metal like gold or silver

b. after WWI, the expansive printing of new money by Germany to pay for debts led to a massive inflation of the German Mark

c. injections of money into the economy always mean lower interest rates because the amount of money to be lent is greater

d. none of the above

12. In the equation Nominal Interest Rate = real rate + inflation premium, the “real rate” is determined

a. primarily determined by private sector borrowing and lending

b. primarily by choices made by the Federal Open Market Committee

c. primarily by the value of the U.S. dollar relative to foreign currencies

d. none of the above

13. The expression that inflation is a “monetary phenomenon” means that

a. it determines the value of a dollar

b. it is determined by the supply and demand for money

c. it influences currency values all over the world

d. it influences money decisions by all households

14. According to the Friedman video/text, the bank used to illustrate the banking panics and lack of assistance by the Fed was

a. Traveller’s Bank and Trust b. Bank of Des Moines

c. Bank of the U.S. d. Morgan Guarantee Trust

15. The rate of inflation is measured as

a. the difference in a price index like the CPI from one time period to the next

b. the percent change in a price index like the CPI from one time period to the next

c. the ratio of a price index like the CPI to a basic interest rate

d. none of the above

16. Inflation reflects

a. the growth in the price of energy prices

b. the direction of future government debt and deficits

c. reductions in the value of a dollar

d. none of the above

17. Which of the following is part of the “wholesale” money market?

a. loans between non-bank firms b. bank deposits by households

c. bank deposits by businesses d. all of the above

18. The federal agency known as the FDIC

a. has the ability to stem system-wide panics in the banking system by acting as lender of last resort

b. increases and decreases the amount of money in circulation through its Open Market Committee

c. has central district office in St. Louis overseeing banks in the region in which Bowling Green resides

d. all of the above

19. The one interest rate over which the Fed has complete control is

a. the Fed Funds rate b. the Discount rate

c. the LIBOR rate d. the T-Bill rate

20. Congress created the Federal Reserve System in

a. 1913 b. 1933

c. 1965 d. none of the above

21. Put “A” for the answer

Correct Answers: 1a, 2a, 3b, 4a, 5b, 6c, 7d, 8a, 9c, 10d, 11b, 12a, 13b, 14c, 15b, 16c, 17a, 18d, 19b, 20a, 21a